

Internal Revenue Service

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Department of the Treasury

Washington, DC 20224

Date [REDACTED]

Surname [REDACTED]

Contact Person: [REDACTED]

Telephone Number: [REDACTED]

In Reference to: [REDACTED]

Date: [REDACTED]

Dear Applicant:

We have considered your application for recognition of exemption under section 501(c)(7) of the Internal Revenue Code. Based upon the information submitted we conclude that you do not qualify for exemption under that section. The basis for our conclusion is set forth below.

You were incorporated in the State of [REDACTED] on [REDACTED]. Your articles of incorporation state that you were formed "to own and operate a trailer park located on [REDACTED]."

You state on Form 1024 that you purchased the trailer park, which consists of about 42 lot sites from the former owners of the park, [REDACTED]. The park is open to your members. In a letter dated [REDACTED] you state that everyone with a trailer on a lot who pays annual dues (\$[REDACTED]) will be a member. There is no rental contract for members or nonmembers. You state that only members and their guests use your facilities. There is no admission charge for these activities.

You also state that the park will be open for recreational purposes. You plan to have group parties, suppers, meetings and other events. You also state that the park is open for recreational purposes such as swimming, boating, horseshoes, bonfires, and potlucks. Your activities will all be on the trailer park grounds and will be conducted by your members.

The information you have provided indicates that you devote about [REDACTED] percent of your time and about [REDACTED] percent of your financial resources to leasing the trailer park. However, you have submitted no information to show that you engage in significant social activities or that you spend any funds on social activities. Your other activities and the percentage of time and funds spent on them are as follows:

[REDACTED]

| <u>Activity</u> | <u>% of Time</u> | <u>% of Funds</u> |
|-------------------------|------------------|-------------------|
| Maintaining tr. park | [REDACTED] | [REDACTED] |
| Recreational activities | [REDACTED] | [REDACTED] |
| Miscellaneous | [REDACTED] | [REDACTED] |

In a letter dated [REDACTED], you state that your trailer park does not have year-round occupancy. You are licensed strictly as a six month trailer park. Members are billed individually for their own electrical use. However, your resort rules state that lot rent includes water, sewer, garbage and 1/2 of the dock.

You provided the following breakdown of the expenses attributable to activities related to your exempt purposes for tax years [REDACTED] and [REDACTED]

| <u>Item</u> | [REDACTED] | [REDACTED] | [REDACTED] |
|-------------------------|---------------|---------------|---------------|
| Park Purchase and Loan | | | |
| Payments | \$ [REDACTED] | \$ [REDACTED] | \$ [REDACTED] |
| Interest | [REDACTED] | [REDACTED] | [REDACTED] |
| Legal & Accounting | [REDACTED] | [REDACTED] | [REDACTED] |
| Taxes | [REDACTED] | [REDACTED] | [REDACTED] |
| Loan Processing | [REDACTED] | [REDACTED] | [REDACTED] |
| Insurance | [REDACTED] | [REDACTED] | [REDACTED] |
| Repairs & Maintenance | [REDACTED] | [REDACTED] | [REDACTED] |
| Utilities | [REDACTED] | [REDACTED] | [REDACTED] |
| Memberships and Permits | [REDACTED] | [REDACTED] | [REDACTED] |
| Capital Improvements | [REDACTED] | [REDACTED] | [REDACTED] |
| Miscellaneous | [REDACTED] | [REDACTED] | [REDACTED] |
| <u>Total</u> | \$ [REDACTED] | \$ [REDACTED] | [REDACTED] |

Your by-laws state that you cannot dispose of any property without two-thirds majority. In the event that you were dissolved, the trailer park property would be sold and the money distributed back to the [REDACTED] members who initially contributed funds to purchase the trailer park. Your by-laws also provide that members cannot sell the rights to the lot that they occupy. However, the members carry the right to use individual lots as long they maintain membership in your organization.

Your financial support will be from contributions of members, rental income from members, special assessments and interest.

Section 501(c)(7) of the Code provides for the exemption from federal income tax of clubs organized for pleasure, recreation, and other nonprofitable purposes, substantially all of the activities of which are for such purposes and no part of the net earnings of which inures to the benefit of any private shareholder.

Section 1.501(c)(7)-1(a) of the Income Tax Regulations provides that the exemption provided by section 501(a) of the Code for an organization described in section 501(c)(7) of the Code applies only to clubs which are organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, but does not apply to any club if any part of its net earnings inure to the benefit of any private shareholder. In general, this exemption extends to social and recreation clubs which are supported solely by membership fees, dues and assessments. However, a club otherwise entitled to exemption will not be disqualified because it raises revenue from members through the use of club facilities or in connection with club activities.

Section 1.501(c)(7)-1(b) of the regulations provides that a club which engages in business, such as selling real estate, is not organized and operated exclusively for pleasure, recreation and other nonprofitable purposes and is not tax exempt under section 501(c)(7) of the Code. However, an incidental sale of property will not deprive a club of its exemption. As substantially all of a social club's activities be social or recreational activities for members. However, Public Law 94-568, 1976-2 C.B. 596, provides that a social club may receive up to 35 percent of its gross receipts, including investment income from sources outside its membership without losing exemption. Within this 35 percent amount, not more than 15 percent of the gross receipts should be derived from the use of a social club's facilities or services by the general public.

Rev. Rul. 68-168, 1968-1 C.B. 269 describes a nonprofit organization that leases building lots to its members on a long-term basis. The organization was formed to develop a lake and adjacent areas to provide facilities for the pleasure and recreation of its members.

Upon formation, the organization acquired substantial acreage, and, after developing recreational facilities on a portion thereof, subdivided the remaining land into building lots which it leases to members. Each member must rent at least one lot. Receipts of the organization are primarily derived from initial payments and annual rentals. Its expenditures are for acquiring, improving, and maintaining its properties.

[REDACTED]

The revenue ruling holds that the subdividing and leasing of lots in the manner described constitutes engaging in business. Although the revenues from this activity are derived from the organization's members only, the revenues are not raised from the members' use of recreational facilities, or in connection with the organization's recreational activities. The conduct of such real estate activity, whether with members only or with the general public, is not incidental to or in furtherance of any purpose covered by section 501(c)(7) of the Code.

Accordingly, the organization does not qualify for exemption from federal income tax under that section.

Rev. Rul. 58-589, 1958-2 C.B. 266, sets forth the criteria or tests for determining whether an organization qualifies for exemption from tax under section 501(c)(7) of the Code. In order to establish that a club is both organized and operated exclusively for pleasure, recreation, and other 501(c)(7) purposes, commingling of the members must play a material part in the life of the organization.

The leasing of lots in the manner described constitutes engaging in business. Although the revenues from this activity are derived from your members only, the revenues are not raised from your members' use of the recreational facilities, or in connection with your recreational activities. Rev. Rul. 68-168, supra, holds that the conduct of such real estate activity, whether with members only or with the general public, is not incidental to or in furtherance of any purpose covered by section 501(c)(7) of the Code.

In addition, you have not submitted information to establish that promoting social activities plays a material part in your operations as required by Rev. Rul. 58-589, supra. Your primary function seems to be leasing and maintaining a trailer park.

Based on the above, you do not qualify for exemption from federal income tax under section 501(c)(7) of the Code and you must file federal income tax returns.

You have the right to protest this ruling if you believe it is incorrect. To protest, you should submit a statement of your views, with a full explanation of your reasoning. This statement, signed by one of your officers, must be submitted within 30 days from the date of this letter. You also have a right to a conference in this office after your statement is submitted. You must request the conference, if you want one, when you file your protest statement. If you are to be represented by someone who is not one of your officers, that

[REDACTED]

person will need to file a proper power of attorney and otherwise qualify under our Conference and Practices Requirements.

If we do not hear from you within 30 days, this ruling will become final and copies will be forwarded to your key district office. Thereafter, any questions about your federal income tax status should be addressed to that office.

When sending additional letters to us with respect to this case, you will expedite their receipt by using the following address:

[REDACTED]

If you have any questions, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely,

[REDACTED]
[REDACTED]
Chief, Exempt Organizations
[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] [REDACTED]